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June 3, 2010

Mr. David Reese
Chief Financial Officer
Arizona Department of Health Services
Division of Behavioral Health Services
150 N. 18th Avenue, Suite 200
Phoenix, AZ 85007

Final

Subject: Behavioral Health Services State Fiscal Year 2011 Capitation Rates for the Title XXI Program

Dear Mr. Reese:

I. Introduction/Background

The State of Arizona Department of Health Services (ADHS), Division of Behavioral Health Services (BHS) contracted with Mercer Government Human Services Consulting (Mercer), a part of Mercer Health & Benefits LLC, to develop actuarially sound capitation rates for each of its Regional Behavioral Health Authorities (RBHAs) for State Fiscal Year 2011 (SFY11). Rates were developed for the Title XXI (TXXI) program.

The Children's Health Insurance Program (CHIP), titled "KidsCare" and also known as Title XXI, provides health insurance to uninsured children under 19 years of age whose family's gross income is at or below 200 percent of the federal poverty level. Individuals 19 years of age who are Seriously Mentally Ill are also covered under the program. The KidsCare benefit package is identical to what is offered to TXIX Medicaid members.

There are four RBHAs for which actuarially sound capitation rates were developed, covering six geographic service areas. They include:

RBHA	Areas Served
Community Partnership of Southern Arizona (CPSA 5)	Pima County
Cenpatico Behavioral Health of Arizona (Cenpatico 2 and Cenpatico 4)	Yuma, LaPaz, Pinal and Gila counties

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RBHA	Areas Served
Northern Arizona Regional Behavioral Health Authority (NARBHA)	Mohave, Coconino, Apache, Navajo and Yavapai counties
Magellan Health Services (MHS)	Maricopa County
GSA 3 (TBD)	Graham, Greenlee, Santa Cruz, and Cochise, Counties

Actuarially sound capitation rates were developed for each of the following population and RBHA combinations, shown in the tables below.

Title XXI

GSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	MHS	Statewide
\$ 21.41	\$ 34.98	\$ 17.79	\$ 20.77	\$ 38.11	\$ 18.55	\$ 21.75

The rate development schedules are shown in Attachment A.

II. Base costs

Mercer has developed capitation rates for the TXXI population for SFY11. Because the membership in this population is quite low, encounter data from their claims is not sufficient. Based upon review of historical financial statements, TXXI individuals' claim costs generally represent about 35 – 45 percent of Title XIX (TXIX) claim costs. Based on this observation, BHS and Mercer agreed to use the TXIX claim cost per-member-per-month (PMPM) values as the base data for the TXXI rates.

From these base PMPMs, Mercer applied an acuity adjustment factor to the PMPMs to derive the TXXI capitation rates. The overall acuity adjustment factor was 0.41 for the TXXI population. The individual RBHA acuity factors varied. They were adjusted based on symmetrical bands of medical loss ratio (MLR) experience for each RBHA. A final adjustment was applied to make the entire process budget neutral.

III. Interpretive Services Administration

The actuarially sound capitation rates developed include provisions for RBHA interpretive services administration. Interpretive services are covered by TXIX and are provided by the RBHAs to TXIX members. The interpretive services administrative factors were determined based on each RBHAs SFY09 analyzed encounter dollars for interpretive services.

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Population	GSA 3	CPSA 5	Cenpatico 2	NARBHA	Cenpatico 4	MHS
All TXIX	0.23%	0.52%	0.17%	0.02%	0.29%	0.94%

The statewide impact to the program for interpretive services is an increase of approximately \$104,905.

IV. Administration and Underwriting Profit/Risk/Contingency

The actuarially sound capitation rates developed include provisions for RBHA administration. Mercer used its professional experience in working with numerous state Medicaid behavioral health and substance abuse programs in determining appropriate loads for administration and underwriting profit/risk/contingency. Mercer also reviewed current RBHA financial reports. The component for administration and underwriting profit/risk/contingency is calculated as a percentage of the final capitation rate. A nine percent load was added across all populations, which is the same as was applied to the SFY10 rates.

V. Risk corridors and performance incentive

BHS has in place a risk corridor arrangement with the RBHAs that provides motivation for the RBHAs to appropriately manage expenses, yet provides financial protection against unmanageable losses. The risk corridor provides impetus for the RBHAs to operate efficiently and generate net income, but also provides for the return of any excessive profit to the State.

The proposed SFY11 BHS risk corridor approach provides for gain/loss risk-sharing symmetry around the service revenue portion of the capitation rates. This risk corridor model is designed to be cost neutral, with no net aggregate assumed impact across all payments. The RBHA contract also provides for a potential one percent performance incentive. In Mercer's professional opinion, the risk corridor and performance incentive methodologies utilized by BHS are actuarially sound.

VI. Tribal fee-for-service claims estimate

Mercer received tribal claims and membership data from BHS for SFY09 through SFY10. This data was reviewed, projected and trended forward. Based on this information, Mercer and BHS projected that TXXI tribal claim costs for SFY11 will be approximately \$443,424.

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VII. BHS Administration/Risk/Contingency

The Arizona Health Care Cost Containment System (AHCCCS) has placed BHS Administration at financial risk for the provision of BHS covered services for SFY11. Accordingly, the capitation rates were developed to include compensation to BHS for the cost of ensuring the delivery of all BHS covered services. The capitation rates paid to BHS include a 3.31 percent load, which was negotiated between AHCCCS and BHS Administration. The load represents the BHS costs of ensuring the efficient delivery of services in a managed care environment.

VIII. Development of statewide capitation rates

Statewide capitation rates were developed by blending the SFY11 capitation rates for each RBHA using projected SFY11 member months, the estimated amount of SFY11 tribal claims and the administrative percentage add-on component for BHS.

The statewide capitation rates are shown in Attachment B.

IX. Certification of final rates

In preparing the rates shown above and attached, Mercer has used and relied upon enrollment, eligibility, claim, reimbursement level, benefit design, and financial data and information supplied by BHS and the RBHAs. BHS and the RBHAs are responsible for the validity and completeness of this supplied data and information. We have reviewed the data and information for internal consistency and reasonableness, but we did not audit it. In our opinion it is appropriate for the intended purposes. If the data and information are incomplete or inaccurate, the values shown in this report may need to be revised accordingly.

Mercer certifies that the above and attached rates, including risk-sharing mechanisms, incentive arrangements or other payments, were developed in accordance with generally accepted actuarial practices and principles, and are appropriate for the Medicaid covered populations and services under the managed care contract. The undersigned actuary is a member of the American Academy of Actuaries and meets its qualification standards to certify to the actuarial soundness of Medicaid managed care capitation rates.

Rates developed by Mercer are actuarial projections of future contingent events. Actual RBHA costs will differ from these projections. Mercer has developed these rates on behalf of BHS to demonstrate compliance with the Centers for Medicare and Medicaid Services

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(CMS) requirements under 42 CFR 438.6(c) and in accordance with applicable law and regulations. Use of these rates for any purpose beyond that stated may not be appropriate.

RBHAs are advised that the use of these rates may not be appropriate for their particular circumstance and Mercer disclaims any responsibility for the use of these rates by the RBHAs for any purpose. Mercer recommends that any RBHA considering contracting with BHS should analyze its own projected medical expense, administrative expense and any other premium needs for comparison to these rates before deciding whether to contract with BHS.

This certification letter assumes the reader is familiar with the BHS program, Medicaid eligibility rules and actuarial rating techniques. It is intended for BHS and CMS, and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.

If you have any questions concerning our rate-setting methodology, please feel free to contact me at 602 522 6510.

Sincerely,

A handwritten signature in blue ink that reads "Michael E. Nordstrom" followed by "ASA, MAAA" in a smaller, less legible script.

Michael E. Nordstrom, ASA, MAAA

MEN:SE:lm

Copy:
Cynthia Layne, ADHS
Sundee Easter, Mercer
Mike Miner, Mercer
Rob O'Brien, Mercer

Enclosures